

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**COMPANION DATA SERVICES, LLC,
PROPERLY UPDATED ITS EXCESS PLAN
MEDICARE SEGMENT PENSION ASSETS
AS OF JANUARY 1, 2017**

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March 2021
A-07-21-00606

Office of Inspector General

<https://oig.hhs.gov/>

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The designation of financial or management practices as questionable, a recommendation for the disallowance of costs incurred or claimed, and any other conclusions and recommendations in this report represent the findings and opinions of OAS. Authorized officials of the HHS operating divisions will make final determination on these matters.

Report in Brief

Date: March 2021

Report No. A-07-21-00606

U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES
OFFICE OF INSPECTOR GENERAL



Why OIG Did This Audit

Medicare contractors are required to separately account for the Medicare segment pension plan assets based on the requirements of Cost Accounting Standards (CAS) 412 and 413.

The HHS, OIG, Office of Audit Services, Region VII pension audit team reviews the Medicare segment pension assets to ensure compliance with Federal regulations. Previous OIG audits found that Medicare contractors did not always correctly identify and update the segmented pension assets.

Our objective was to determine whether Companion Data Services, LLC (CDS), complied with Federal requirements and its established cost accounting practice when updating its Excess Plan Medicare segment pension assets from January 1, 2015, to January 1, 2017.

How OIG Did This Audit

We reviewed CDS's identification of its Excess Plan Medicare segment and its update of the Excess Plan Medicare segment pension assets from January 1, 2015, to January 1, 2017.

Companion Data Services, LLC, Properly Updated Its Excess Plan Medicare Segment Pension Assets as of January 1, 2017

What OIG Found

CDS properly updated its Excess Plan Medicare segment pension assets from January 1, 2015, to January 1, 2017. Therefore, the \$263,103 in Excess Plan Medicare segment pension assets that CDS identified as of January 1, 2017, were reasonable and correct.

What OIG Recommends and Auditee Comments

Because the \$263,103 in Excess Plan Medicare segment pension assets that CDS identified were reasonable and correct, this report contains no recommendations.

CDS acknowledged that there were no recommendations or corrections required in the report and concurred with it.

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INTRODUCTION

WHY WE DID THIS AUDIT

Medicare contractors are required to separately account for the Medicare segment pension plan assets based on the requirements of their Medicare contracts and Cost Accounting Standards (CAS) 412 and 413. The Centers for Medicare & Medicaid Services (CMS) incorporated this requirement into the Medicare contracts beginning with fiscal year 1988. Previous Office of Inspector General audits found that Medicare contractors did not always correctly identify and update the segmented pension assets.

At CMS's request, the Department of Health and Human Services, Office of Inspector General, Office of Audit Services, Region VII pension audit team reviews the cost elements related to qualified defined-benefit, nonqualified defined-benefit, postretirement benefit, and any other pension-related cost elements claimed by Medicare fiscal intermediaries and carrier contractors, Medicare administrative contractors (MACs), and other CAS-covered and Federal Acquisition Regulation (FAR)-covered contracts through Final Administrative Cost Proposals, Incurred Cost Proposals (ICPS), or both.

For this audit, we focused on one entity, Companion Data Services, LLC (CDS). In particular, we examined the Blue Cross Blue Shield of South Carolina (BCBS South Carolina) Excess Plan (Excess Plan) CDS Medicare segment pension assets that were updated from January 1, 2015, to January 1, 2017.

OBJECTIVE

Our objective was to determine whether CDS complied with Federal requirements and its established cost accounting practice when updating its Excess Plan Medicare segment pension assets from January 1, 2015, to January 1, 2017.

BACKGROUND

Companion Data Services, LLC

During our audit period, CDS was a subsidiary of BCBS South Carolina, whose home office is in Columbia, South Carolina. CDS was created after being awarded the Enterprise Data Center (EDC) contract effective March 10, 2006. The EDC contract was replaced by a Virtual Data Center contract on November 15, 2012, which is still in effect. Upon creation of the CDS Medicare segment, BCBS South Carolina and CDS elected to follow CAS regulations regarding segmented accounting.

During our audit period, CMS and BCBS South Carolina entered into an agreement called the "Advance Agreement Regarding the Computation of Nonqualified Defined Benefit Pension Plan Costs for the Periods Beginning January 1, 2015" (agreement). This agreement allowed BCBS

South Carolina to change its accounting methodology from a pay-as-you to an accrual method. This agreement also closed costs prior to January 1, 2015. Starting with January 1, 2015, the Excess Plan would, under the terms of this agreement, have three Medicare segments: (1) Palmetto Government Benefits Administrator, LLC (Palmetto), (2) CDS, and (3) Partial Medicare.¹ This report addresses CDS's compliance with the pension segmentation language under the provisions of Federal requirements and its Medicare contracts. We are addressing the Excess Plan Medicare segment pension assets for the Palmetto and Partial Medicare segments in separate audits.

Blue Cross Blue Shield of South Carolina Excess Plan

BCBS South Carolina sponsors the Excess Plan. The purpose of the Excess Plan is to provide benefits in excess of the limits imposed by the Employee Retirement Income Security Act of 1974 for participants in BCBS South Carolina's qualified defined-benefit plan.²

HOW WE CONDUCTED THIS AUDIT

We reviewed CDS's identification of its Excess Plan Medicare segment and its update of the Excess Plan Medicare segment pension assets from January 1, 2015, to January 1, 2017.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objectives.

Appendix A contains details of our audit scope and methodology.

RESULTS OF AUDIT

CDS properly updated its Excess Plan Medicare segment pension assets from January 1, 2015, to January 1, 2017. Therefore, the \$263,103 in Excess Plan Medicare segment pension assets that CDS identified as of January 1, 2017, were reasonable and correct. Accordingly, this report contains no recommendations.

¹ The Partial Medicare segment allocates costs to three Medicare segments: (1) Palmetto, (2) CDS, and (3) CGS Administrators, LLC.

² The Employee Retirement Income Security Act of 1974, P.L. No. 93-406 (Sept. 2, 1974).

AUDITEE COMMENTS

In written comments on our draft report, CDS acknowledged that “there were no recommendations or corrections required” in the report and concurred with it. CDS’s comments appear in their entirety as Appendix D.

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

We reviewed CDS's identification of its Excess Plan Medicare segment and its update of the Excess Plan Medicare segment pension assets from January 1, 2015, to January 1, 2017.

Achieving our objective did not require that we review CDS's overall internal control structures. We reviewed controls relating to the identification of the Medicare segment and to the update of the Medicare segment pension assets to ensure adherence to the Medicare contracts, CAS 412, and CAS 413.

We performed fieldwork at BCBS South Carolina and CDS located in Columbia, South Carolina.

METHODOLOGY

To accomplish our objective, we:

- reviewed the portions of the FAR, CAS, and Medicare contracts applicable to this audit;
- reviewed the annual actuarial valuation reports prepared by BCBS South Carolina's actuarial consulting firms, which included the pension plan's assets, liabilities, normal costs, contributions, benefit payments, investment earnings, and administrative expenses, and used this information to calculate the Excess Plan Medicare segment assets;
- obtained and reviewed the pension plan documents used in calculating the Excess Plan CDS Medicare segment assets;
- interviewed BCBS South Carolina staff responsible for identifying the Excess Plan CDS Medicare segment to determine whether the segment was properly identified in accordance with its established cost accounting practice;
- reviewed BCBS South Carolina's accounting records to verify the Excess Plan CDS Medicare segment identification as well as the benefit payments made from the Excess Plan CDS Medicare segment;
- provided the CMS Office of the Actuary, which provides technical actuarial advice, with the actuarial information necessary for it to calculate the Excess Plan CDS Medicare segment pension assets from January 1, 2015, to January 1, 2017;
- reviewed the CMS actuaries' methodology and calculations; and

- provided the results of our audit to CDS officials on December 17, 2020.

We performed this audit in conjunction with the following audits and used the information obtained during these audits:

- *Palmetto Government Benefits Administrator, LLC, Overstated Its Excess Plan Medicare Segment Pension Assets as of January 1, 2017 (A-07-20-00598)* and
- *Blue Cross Blue Shield of South Carolina Overstated Its Excess Plan Partial Medicare Segment Pension Assets as of January 1, 2017 (A-07-21-00607).*

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objectives.

**APPENDIX B: COMPANION DATA SERVICES, LLC,
STATEMENT OF MEDICARE SEGMENT EXCESS PLAN ASSETS
FOR THE PERIOD JANUARY 1, 2015, TO JANUARY 1, 2017**

Description		Total Company	Other Segments	100% Palmetto Medicare Segment	100% CDS Medicare Segment	Partial Medicare Segment	Non Medicare Segment
Assets January 1, 2015	<u>1/</u>	\$60,983,838	\$60,983,838	\$0	\$0	\$0	\$0
Prepayment Credits	<u>2/</u>	0	(6,224,332)	370,809	135,068	1,863,236	3,855,219
Contributions	<u>3/</u>	3,048,002	3,048,002	0	0	0	0
Earnings	<u>4/</u>	(448,333)	(408,277)	(2,705)	(972)	(9,985)	(26,394)
Benefit Payments	<u>5/</u>	(1,460,763)	0	0	0	(988,319)	(472,444)
Assets January 1, 2016		\$62,122,744	\$57,399,231	\$368,104	\$134,096	\$864,932	\$3,356,381
Prepayment Credits		0	(6,819,542)	339,448	118,402	1,811,402	4,550,290
Contributions		17,450,949	17,450,949	0	0	0	0
Earnings		2,693,217	2,378,532	29,719	10,605	54,817	219,544
Benefit Payments		(10,759,765)	(2,660,757)	0	0	(2,741,901)	(5,357,107)
Assets January 1, 2017		\$71,507,145	\$67,748,413	\$737,271	\$263,103	(\$10,750)	\$2,769,108
Per CDS	<u>6/</u>	\$71,507,145	\$59,796,506	\$746,467	\$263,103	\$2,786,127	\$7,914,942
Asset Variance	<u>7/</u>	\$0	\$7,951,907	(\$9,196)	\$0	(\$2,796,877)	(\$5,145,834)

ENDNOTES

- 1/ We determined the Total Company, Medicare, and non-Medicare segments' pension assets as of January 1, 2015, based on BCBS South Carolina's actuarial valuation report. The amounts shown for the Other segment represent the difference between the Total Company and the Medicare and non-Medicare segments. All pension assets are shown at market value.
- 2/ Transferred prepayment credits represent funds available to satisfy future funding requirements and are applied to future funding requirements before current-year contributions in order to avoid incurring unallowable interest. Prepayment credits are transferred to the Medicare and non-Medicare segments as needed to cover funding requirements.
- 3/ We obtained Total Company contribution amounts from the actuarial valuation reports. We allocated Total Company contributions to the Medicare and non-Medicare segments based on the ratio of the segment's funding target divided by the Total Company funding target. Contributions in excess of the funding targets were treated as prepayment credits and accounted for in the Other segment until needed to fund pension costs in the future.
- 4/ We obtained investment earnings from the actuarial valuation reports. We allocated net investment earnings based on the ratio of each segment's weighted average value (WAV) of assets to Total Company WAV of assets as required by the CAS.
- 5/ We based the Medicare segment's benefit payments on actual payments to Medicare retirees. We obtained the benefit payments from documents provided by BCBS South Carolina.

6/ We obtained segment asset amounts from documents prepared by BCBS South Carolina's actuarial consulting firm.

7/ The asset variance represents the difference between our calculation of the Excess Plan CDS Medicare segment assets and CDS's calculation of its Excess Plan Medicare segment assets.

**APPENDIX C: COMPANION DATA SERVICES, LLC,
EXCESS PLAN COST ACCOUNTING STANDARDS BALANCE EQUATION
AS OF JANUARY 1, 2017**

Description		Total Company	Other Segments	100% Palmetto Medicare Segment	100% CDS Mediare Segment	Partial Medicare Segment	Non Medicare Segment
Actuarial Accrued Liability	<u>1/</u>	\$ 82,356,640	\$ 41,758,094	\$ 2,057,142	\$ 948,225	\$ 10,895,926	\$ 26,697,253
Less: Actuarial Value of Assets	<u>2/</u>	(75,822,822)	(71,838,740)	(781,768)	(278,982)	12,900	(2,936,232)
Unfunded Actuarial Liability	<u>3/</u>	\$ 6,533,818	\$ (30,080,646)	\$ 1,275,374	\$ 669,243	\$ 10,908,826	\$ 23,761,021
9904.412-50(a)(2) Unallowable	<u>4/</u>	\$ -	-	\$ -	\$ -	\$ -	\$ -
Prepayment Credit	<u>5/</u>	(56,247,479)	(56,247,479)	-	-	-	-
Adjustments to UAL	<u>6/</u>	\$ (56,247,479)	\$ (56,247,479)	\$ -	\$ -	\$ -	\$ -
Net Unamortized Balance	<u>7/</u>	\$ 62,781,297	\$ 26,166,833	\$ 1,275,374	\$ 669,243	\$ 10,908,826	\$ 23,761,021
Market Value of Assets	<u>8/</u>	\$ 71,507,145	\$ 67,748,413	\$ 737,271	\$ 263,103	\$ (10,750)	\$ 2,769,108

ENDNOTES

- 1/ Actuarial accrued liability (AAL) represents the pension cost attributable, under the actuarial cost method in use, to years prior to January 1, 2017. We obtained the Total Company AAL from the January 1, 2017, BCBS South Carolina actuarial valuation report. The AALs for the Other Segment and Medicare and non-Medicare segments were determined as a result of our audit.
- 2/ The actuarial value of assets (AVA) is the value of cash, investments, and other property belonging to a pension plan, as used by the actuary for the purpose of an actuarial valuation. The AVA shown here was computed by the CMS Office of the Actuary based on audited values as of January 1, 2017.
- 3/ The unfunded actuarial liability (UAL) is the AAL less the AVA as of January 1, 2017. An actuarial surplus, or negative UAL, is created whenever the AVA exceeds the AAL.
- 4/ The 9904.412-50(a)(2) Unallowable represents the prior-period pension costs determined to be unallowable in accordance with Government contractual provisions in effect at the time or pension costs assigned to a cost accounting period that were not funded in that period. This is an adjustment to the UAL required by CAS 412-50(a)(2).
- 5/ The prepayment credit represents funds available to satisfy future funding requirements. This is an adjustment to the AVA for premature funding of future pension costs required by CAS 412-50(a)(4).
- 6/ Adjustments to the UAL represent the sum of the unallowable and prepayment balances as of January 1, 2017.

- 7/ The net unamortized balance is the UAL less the adjustments to the UAL. It is the portion of the UAL yet to be amortized in accordance with CAS 412-50(a)(1) and CAS 413-50(a)(2).
- 8/ The market value of assets represents the current value of assets as of January 1, 2017, plus the current value of any accrued contributions used to fund pension costs assigned to periods prior to January 1, 2017.

APPENDIX D: AUDITEE COMMENTS

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February 25, 2021

Patrick J. Cogley
Office of Inspector General
601 East 12th Street, Room 0429
Kansas City, MO 064106

Subject: CDS Pension Audit – Report A-07-21-00606

Mr. Cogley,

Please accept this as CDS response to your report dated February 9, 2021. CDS is in concurrence with your report whereby there were no recommendations or corrections required.

If you have any questions, or need anything further, please let me know.

Lane Dundee

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